

KEOKUK COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2006

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Keokuk Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2004 Election)		
Julia Logan	President	2006
Sandy Stark	Vice President	2005
David Barrett	Board Member	2005
Tyler McGhghy	Board Member	2006
Brian Richardson	Board Member	2006
Jim Vandenberg	Board Member	2007
Brent Gatton	Board Member	2007

Board of Education (After September 2004 Election)		
Julia Logan	President	2006
Sandy Stark	Vice President	2008
David Hotop	Board Member	2008
Tyler McGhghy	Board Member	2006
Brian Richardson	Board Member	2006
Jim Vandenberg	Board Member	2007
Brent Gatton	Board Member	2007

School Officials		
Jane Babcock	Superintendent	2006
Greg Reynolds	District Secretary/Treasurer and Business Manager	2006
Nyemaster, Goode, Voigts, West, Hansell & O'Brien, P.C.	Attorney	2006
Dorsey & Whitney, LLP	Attorney	2006
James F. Dennis	Attorney	2006

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3050
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Keokuk Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Keokuk Community School District, Keokuk, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Keokuk Community School District at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated October 5, 2006 on our consideration of Keokuk Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 36 through 37 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board.

Members American Institute & Iowa Society of Certified Public Accountants

We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Keokuk Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for three years ended June 30, 2005 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The supplementary information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Nolte, Cornman & Johnson PC

NOLTE, CORNMAN & JOHNSON, P.C.

October 5, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Keokuk Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$18,325,138 in fiscal 2005 to \$18,862,005 in fiscal 2006, while General Fund expenditures increased from \$18,100,683 in fiscal 2005 to \$18,752,076 in fiscal 2006. This resulted in an increase in the District's General Fund balance from \$3,851,553 in fiscal 2005 to a balance of \$3,961,482 in fiscal 2006, a 2.85% increase from the prior year.
- The increase in General Fund revenues was attributable to an increase in state grant revenue in fiscal 2006. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits.
- Capital expenditures of \$293,180 were made in fiscal 2006 for completion of the learning center building and the start of construction of the entrance additions at the high school.
- The School Nutrition Fund provides services to the Midwest Academy consisting of three meals a day for each student attending. These extra profits, along with more state and federal revenues, allowed the fund balance to increase \$446,161 during fiscal 2006. The District is closely monitoring this fund balance to ensure that chargeable costs are appropriate.
- This is the 4th consecutive year that the school district ended its year with a positive special education balance.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Keokuk Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Keokuk Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Keokuk Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds. In addition, the Schedule of Expenditures of Federal Awards provides detail of various programs benefiting the District.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Keokuk Community School District Annual Financial Report

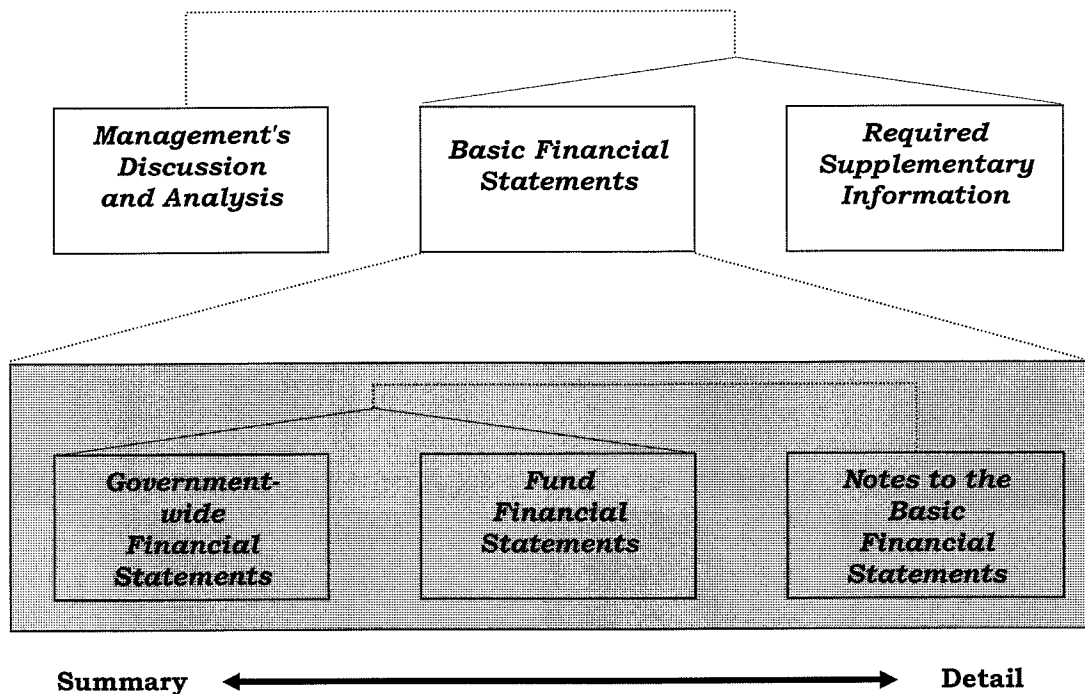


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2

Major Features of the Government-Wide and Fund Financial Statements

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Capital Projects, and Debt Service Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

- 3) *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. This fund is the Private-Purpose Trust fund.

- Private Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the Government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include the statement of fiduciary net assets and the statement of changes in fiduciary net assets.

Reconciliation between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2006 compared to June 30, 2005.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Current and other assets	\$ 13,135,260	13,492,272	1,275,594	860,710	14,410,854	14,352,982	0.40%
Capital assets	19,538,609	19,674,787	244,433	203,316	19,783,042	19,878,103	-0.48%
Total assets	32,673,869	33,167,059	1,520,027	1,064,026	34,193,896	34,231,085	-0.11%
Long-term obligations	11,859,742	12,307,241	0	0	11,859,742	12,307,241	-3.64%
Other liabilities	6,341,877	7,116,998	24,984	15,144	6,366,861	7,132,142	-10.73%
Total liabilities	18,201,619	19,424,239	24,984	15,144	18,226,603	19,439,383	-6.24%
Net assets:							
Invested in capital assets, net of related debt	11,712,190	10,453,567	244,433	203,316	11,956,623	10,656,883	12.20%
Restricted	354,041	354,718	0	0	354,041	354,718	-0.19%
Unrestricted	2,406,019	2,934,535	1,250,610	845,566	3,656,629	3,780,101	-3.27%
Total net assets	\$ 14,472,250	13,742,820	1,495,043	1,048,882	15,967,293	14,791,702	7.95%

The District's combined net assets increased by 7.95% or \$1,175,591 over the prior year. The largest portion of the District's net assets is the invested in capital assets, less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The District's restricted net assets decreased \$677 or .19% over the prior year. The decrease was primarily a result of a decrease in the Special Revenue, Schoolhouse 67.5 fund balance.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraint established by debt covenants, enabling legislation, or the legal requirement - decreased \$123,472 or 3.27%. This decrease in unrestricted net assets was a result of the increase in early retirement payable to be paid in the future from the Special Revenue, Management Fund.

Figure A-4 shows the changes in net assets for the year ended June 30, 2006 compared to June 30, 2005.

Figure A-4 Changes of Net Assets							
	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Revenues:							
Program revenues:							
Charges for services	\$ 506,628	787,152	1,353,740	1,328,477	1,860,368	2,115,629	-12.07%
Operating grants and contributions and restricted interest	3,513,896	3,563,044	545,490	582,418	4,059,386	4,145,462	-2.08%
Capital grants and contributions and restricted interest	169,268	833,125	0	0	169,268	833,125	-79.68%
General revenues:							
Property tax	5,849,056	6,008,642	0	0	5,849,056	6,008,642	-2.66%
Local option sales and service tax	1,425,025	1,367,367	0	0	1,425,025	1,367,367	4.22%
Unrestricted state grants	10,122,959	9,302,029	0	0	10,122,959	9,302,029	8.83%
Other	392,557	222,956	30,319	3,969	422,876	226,925	86.35%
Total revenues	21,979,389	22,084,315	1,929,549	1,914,864	23,908,938	23,999,179	-0.38%
Program expenses:							
Governmental activities:							
Instructional	13,034,489	12,419,569	0	0	13,034,489	12,419,569	4.95%
Support services	5,780,731	5,380,441	10,131	0	5,790,862	5,380,441	7.63%
Non-instructional programs	695,083	916,281	1,473,257	1,299,198	2,168,340	2,215,479	-2.13%
Other expenses	1,739,656	1,871,028	0	0	1,739,656	1,871,028	-7.02%
Total expenses	21,249,959	20,587,319	1,483,388	1,299,198	22,733,347	21,886,517	3.87%
Changes in net assets	729,430	1,496,996	446,161	615,666	1,175,591	2,112,662	-44.35%
Net assets beginning of year	13,742,820	12,245,824	1,048,882	433,216	14,791,702	12,679,040	16.66%
Net assets end of year	\$ 14,472,250	13,742,820	1,495,043	1,048,882	15,967,293	14,791,702	7.95%

In fiscal 2006, property tax, local option sales and services tax and unrestricted state grants account for 79.15% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 98.43% of the revenue from business-type activities.

The District's total revenues were \$23,908,938 of which \$21,979,389 was for governmental activities and \$1,929,549 was for business-type activities.

As shown in Figure A-4, the District as a whole experienced a .38% decrease in revenues and a 3.87% increase in expenses. Unrestricted state grants increased by \$820,930 to fund increases in expenditures. The increases in expenses were related to increases in negotiated salary and benefits.

Governmental Activities

Revenues for governmental activities were \$23,908,938 and expenses were \$22,733,347.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2006	2005	Change 2005-06	2006	2005	Change 2005-06
Instruction	\$ 13,034,489	12,419,569	4.95%	10,596,486	8,760,655	20.96%
Support services	5,780,731	5,380,441	7.44%	5,606,158	5,349,463	4.80%
Non- instructional programs	695,083	916,281	-24.14%	9,533	916,281	-98.96%
Other expenses	1,739,656	1,871,028	-7.02%	847,990	377,599	124.57%
Total	\$ 21,249,959	20,587,319	3.22%	17,060,167	15,403,998	10.75%

- The cost financed by users of the District's programs was \$506,628.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$3,683,164.
- The net cost of governmental activities was financed with \$5,849,056 in property tax, \$1,425,025 in local option sales and service tax, \$10,122,959 in unrestricted state grants, \$296,626 in interest income and \$95,931 in other general revenues.

Business-Type Activities

Revenues of the District's business-type activities were \$1,929,549 and expenses were \$1,483,388. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Keokuk Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$6,893,260, compared to last year's ending fund balances of \$6,494,878. However, the primary reason for the increase was the increase in local option sales and services tax in the Capital Projects Fund.

Governmental Fund Highlights

- The District's improving General Fund financial position is the product of many factors.
 - Total revenues were greater than total expenditures ensuring the increase in the financial position of the District.
 - In spite of the increase in revenues, the District actually received \$159,586 less in local taxes during fiscal 2006. The increases came from receiving more in tuition, other local sources and state grant sources during the year.
 - The revenues and expenses associated with the 21st Century Grant caused both areas to decrease. The District received \$297,951 less from this grant in FY06 than in FY05.
 - Instructional expenditures increased \$726,023 in FY06. A portion of this increase is due to the increases in the employees salaries and benefits.
- The Capital Projects fund balance increased to \$794,964 during the current year. Expenditures decreased as construction on the new Learning Center and the replacement of the high school roof was completed in the prior year. To offset some of the costs associated

with the construction, the District used the \$139,244 they received from an Iowa Demonstration Construction Grant.

- An increase in local option sales and services tax revenue transferred from the Capital Projects allowed the Debt Service fund balance to increase from \$1,379,903 to \$1,443,494.

Proprietary Fund Highlights

As discussed earlier, the School Nutrition Fund net assets increased \$446,161 due to the increased services to the Midwest Academy. The change in net assets associated with the serving of the District's students was minimal.

BUDGETARY HIGHLIGHTS

The District's revenues were \$21,001 less than budgeted revenues, a variance of less than 1%. The most significant variance resulted from the District receiving more in federal sources than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the support services function due to account code changes required from the Department of Education for of the submission of Certified Annual Report without sufficient time to amend the certified budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had invested \$19,783,042, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of .48% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$825,579.

The original cost of the District's capital assets was \$31,633,648. Governmental funds account for \$31,215,413 with the remainder of \$418,235 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the buildings category. The District's buildings totaled \$17,204,556 at June 30, 2006, compared to \$17,759,698 reported at June 30, 2005. This decrease resulted from the current year depreciation expense.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Land	\$ 902,602	902,602	0	0	902,602	902,602	0.00%
Construction in progress	125,736	8,075	0	0	125,736	8,075	1457.10%
Buildings	17,204,556	17,579,698	0	0	17,204,556	17,579,698	-2.13%
Land improvements	480,279	465,959	0	0	480,279	465,959	3.07%
Machinery and equipment	825,436	718,453	244,433	203,316	1,069,869	921,769	16.07%
Total	\$ 19,538,609	19,674,787	244,433	203,316	19,783,042	19,878,103	-0.48%

Long-Term Debt

At June 30, 2006, the District had long-term debt outstanding of \$11,859,742 in general obligation bonds, revenue bonds and other long-term debt. This represents a decrease of 3.64% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

A decrease of \$410,000 during the year leaves the District with total outstanding general obligation bonds payable of \$6,665,000 at June 30, 2006.

Principal payments totaling \$725,000 reduced the District's revenue bonds payable to \$3,300,000, at June 30, 2006.

At June 30, 2006, the District has a liability in compensated absences of \$170,073. Compensated absences are an accumulation of the Districts employees unused vacation days.

A net increase of \$661,428 during the year increased the total outstanding early retirement payable reported by the District to an ending balance of \$1,724,669.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2006	2005	
General obligation bonds	\$ 6,665,000	7,075,000	-5.8%
Revenue bonds	3,300,000	4,025,000	-18.01%
Early retirement	1,724,669	1,063,241	62.21%
Compensated absences	170,073	144,000	18.11%
Total	\$ 11,859,742	12,307,241	-3.64%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The District has experienced an increase in enrollment the past few years; however, the trend is not expected to continue. The September 2005 count resulted in a decrease of 44.1 students or 1.84%, which will affect the funding received by the District in the 2006-07 fiscal year.
- Funding for the District's before and after school program has been received from Federal and State Grants. The grants for this program have been completed. The future of this program is depended upon the District's ability to fund this through alternative sources.

-
- Low allowable growth over several years and enrollment trends impact the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
 - Continued budget concerns at state level will affect future projections. The District has experienced a decline in taxable valuations in recent years and has forced a shift in funding between state aid and property taxes.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Gregory Reynolds, District Board Secretary/Business Manager, Keokuk Community School District, 727 Washington Street, Keokuk, Iowa, 52632.

BASIC FINANCIAL STATEMENTS

KEOKUK COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments	\$ 6,143,669	1,103,678	7,247,347
Receivables:			
Property tax:			
Delinquent	93,993	0	93,993
Succeeding year	5,936,324	0	5,936,324
Accounts	119,165	165,755	284,920
Due from other governments	842,109	910	843,019
Inventories	0	5,251	5,251
Capital assets, net of accumulated depreciation(Note 4)	19,538,609	244,433	19,783,042
TOTAL ASSETS	32,673,869	1,520,027	34,193,896
LIABILITIES			
Accounts payable	184,965	14,548	199,513
Salaries and benefits payable	11,014	0	11,014
Interest payable	99,877	0	99,877
Bond principal due and unpaid	25,000	0	25,000
Bond interest due and unpaid	4,238	0	4,238
Deferred revenue:			
Succeeding year property tax	5,936,324	0	5,936,324
Other	80,459	0	80,459
Unearned revenue	0	10,436	10,436
Long-term liabilities(Note 5):			
Portion due within one year:			
General obligation bonds	425,000	0	425,000
Revenue bonds	760,000	0	760,000
Early retirement	727,649	0	727,649
Compensated absences	170,073	0	170,073
Portion due after one year:			
General obligation bonds	6,240,000	0	6,240,000
Revenue bonds	2,540,000	0	2,540,000
Early retirement	997,020	0	997,020
TOTAL LIABILITIES	18,201,619	24,984	18,226,603
NET ASSETS			
Investment in capital assets, net of related debt	11,712,190	244,433	11,956,623
Restricted for:			
Physical plant and equipment levy	206,430	0	206,430
Schoolhouse 67.5	21,853	0	21,853
Other special revenue purposes	125,758	0	125,758
Unrestricted	2,406,019	1,250,610	3,656,629
TOTAL NET ASSETS	\$ 14,472,250	1,495,043	15,967,293

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

KEOKUK COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	\$ 8,228,403	153,020	1,823,255	0	(6,252,128)	0
Special instruction	2,925,773	15,437	145,942	0	(2,764,394)	0
Other instruction	1,880,313	300,349	0	0	(1,579,964)	0
	13,034,489	468,806	1,969,197	0	(10,596,486)	0
Support services:						
Student services	813,152	0	0	0	(813,152)	0
Instructional staff services	502,864	0	15,279	0	(487,585)	0
Administration services	2,125,342	0	74,678	0	(2,050,664)	0
Operation and maintenance of plant services	1,810,484	0	23,522	0	(1,786,962)	0
Transportation services	528,889	36,827	24,267	0	(467,795)	0
	5,780,731	36,827	137,746	0	(5,606,158)	0
Non-instructional program:						
Community service and education operations	695,083	995	684,555	0	(9,533)	0
Other expenditures:						
Facilities acquisitions	102,047	0	0	169,268	67,221	0
Long-term debt interest	421,506	0	0	0	(421,506)	0
AEA flowthrough	722,398	0	722,398	0	0	0
Depreciation(unallocated)*	493,705	0	0	0	(493,705)	0
	1,739,656	0	722,398	169,268	(847,990)	0
Total governmental activities	21,249,959	506,628	3,513,896	169,268	(17,060,167)	0
Business-Type activities:						
Support services:						
Operation and maintenance of plant services	10,131	10,131	0	0	0	0
Non-instructional programs:						
Food service operations	1,473,257	1,343,609	545,490	0	0	415,842
Total business-type activities	1,483,388	1,353,740	545,490	0	0	415,842
Total	\$ 22,733,347	1,860,368	4,059,386	169,268	(17,060,167)	415,842
General Revenues:						
Property tax levied for:						
General purposes					\$ 5,344,340	0
Debt services					395,889	0
Capital outlay					108,827	0
Local option sales and service tax					1,425,025	0
Unrestricted state grants					10,122,959	0
Unrestricted investment earnings					296,626	30,319
Other general revenues					95,931	0
Total general revenues					17,789,597	30,319
Changes in net assets					729,430	446,161
Net assets beginning of year					13,742,820	1,046,882
Net assets end of year					\$ 14,472,250	1,495,043

* This amount excludes the depreciation that is included in the direct expense of various programs.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

KEOKUK COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General	Capital Projects	Debt Service	Nonmajor Special Revenue Funds	Total
Assets					
Cash and pooled investments	\$ 3,400,575	588,858	1,467,495	686,741	6,143,669
Receivables:					
Property tax					
Delinquent	76,862	0	5,987	11,144	93,993
Succeeding year	4,932,998	0	39,398	864,615	5,837,011
Accounts	272	118,893	0	0	119,165
Due from other governments	750,990	91,119	0	0	842,109
Total assets	\$ 9,161,697	798,870	1,512,880	1,562,500	13,035,947
Liabilities and fund balances					
Liabilities:					
Accounts payable	\$ 175,744	3,906	750	4,565	184,965
Salaries and benefits payable	11,014	0	0	0	11,014
Bond principal due and unpaid	0	0	25,000	0	25,000
Bond interest due and unpaid	0	0	4,238	0	4,238
Deferred revenue:					
Succeeding year property tax	4,932,998	0	39,398	864,615	5,837,011
Other	80,459	0	0	0	80,459
Total liabilities	5,200,215	3,906	69,386	869,180	6,142,687
Fund balances:					
Reserved for:					
Debt Service	0	0	1,443,494	0	1,443,494
Unreserved:					
General	3,961,482	0	0	0	3,961,482
Capital projects	0	794,964	0	0	794,964
Management levy	0	0	0	339,279	339,279
Student activity	0	0	0	125,758	125,758
Physical plant and equipment levy	0	0	0	206,430	206,430
Schoolhouse 67.5	0	0	0	21,853	21,853
Total fund balances	3,961,482	794,964	1,443,494	693,320	6,893,260
Total liabilities and fund balances	\$ 9,161,697	798,870	1,512,880	1,562,500	13,035,947

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

KEOKUK COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006

Total fund balances of governmental funds (page 16)	\$ 6,893,260
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not report as assets in in the governmental funds.	19,538,609
Accrued interest payable in long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(99,887)
Long-term liabilities, including bonds payable, compensated absences payable, and early retirement are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(11,859,732)</u>
Net assets of governmental activites (page 14)	<u>\$ 14,472,250</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

KEOKUK COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	General	Capital Projects	Debt Service	Nonmajor Special Revenue Funds	Total
Revenues:					
Local sources:					
Local tax	\$ 4,756,563	1,425,025	395,889	696,604	7,274,081
Tuition	145,239	0	0	0	145,239
Other	351,935	40,848	66,795	352,979	812,557
Intermediate sources	237,966	0	0	0	237,966
State sources	11,526,565	0	0	0	11,526,565
Federal sources	1,842,470	139,244	0	0	1,981,714
Total revenues	18,860,738	1,605,117	462,684	1,049,583	21,978,122
Expenditures:					
Current:					
Instruction:					
Regular instruction	7,180,662	0	0	354,353	7,535,015
Special instruction	2,937,092	0	0	0	2,937,092
Other instruction	1,615,272	0	0	312,209	1,927,481
	11,733,026	0	0	666,562	12,399,588
Support services:					
Student services	743,239	0	0	0	743,239
Instructional staff services	522,756	0	0	0	522,756
Administration services	2,105,791	0	3,500	30,757	2,140,048
Operation and maintenance of plant services	1,737,413	0	0	152,137	1,889,550
Transportation services	492,370	0	0	106,562	598,932
	5,601,569	0	3,500	289,456	5,894,525
Non-instructional programs:					
Community service and education operations	695,083	0	0	0	695,083
	695,083	0	0	0	695,083
Other expenditures:					
Facilities acquisitions	0	247,994	0	45,186	293,180
Long-term debt:					
Principal	0	0	1,135,000	0	1,135,000
Interest and fiscal charges	0	0	441,233	0	441,233
AEA flowthrough	722,398	0	0	0	722,398
	722,398	247,994	1,576,233	45,186	2,591,811
Total expenditures	18,752,076	247,994	1,579,733	1,001,204	21,581,007
Excess(deficiency) of revenues over(under) expenditures	108,662	1,357,123	(1,117,049)	48,379	397,115
Other financing sources(uses):					
Transfers in	0	0	1,180,640	0	1,180,640
Transfers out	0	(1,180,640)	0	0	(1,180,640)
Compensation for loss of fixed assets	1,007	0	0	0	1,007
Sale of equipment	260	0	0	0	260
Total other financing sources(uses)	1,267	(1,180,640)	1,180,640	0	1,267
Net change in fund balances	109,929	176,483	63,591	48,379	398,382
Fund balance beginning of year	3,851,553	618,481	1,379,903	644,941	6,494,878
Fund balance end of year	\$ 3,961,482	794,964	1,443,494	693,320	6,893,260

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

KEOKUK COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2006

Net change in fund balances - total governmental funds (page 18) \$ 398,382

*Amounts reported for governmental activities in the
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlays expenditures exceeded depreciation expense in the current year, as follows:

Capital expenditures	\$ 656,764	
Depreciation expense	(792,942)	(136,178)

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. 1,135,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 19,727

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund.

Early retirement	\$ (661,428)	
Compensated absences	(26,073)	(687,501)

Changes in net assets of governmental activities (page 15) \$ 729,430

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

KEOKUK COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2006

	<u>School Nutrition</u>
Assets	
Cash and cash equivalents	\$ 1,103,678
Accounts receivable	165,755
Due from other governments	910
Inventories	5,251
Capital assets, net of accumulated depreciation(Note 4)	<u>244,433</u>
Total assets	<u>1,520,027</u>
Liabilities	
Accounts payable	14,548
Unearned revenues	<u>10,436</u>
Total liabilities	<u>24,984</u>
Net assets	
Investment in capital assets, net of related debt	244,433
Unrestricted	<u>1,250,610</u>
Total net assets	<u><u>\$ 1,495,043</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

KEOKUK COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2006

	<u>School Nutrition</u>
Operating revenues:	
Local sources:	
Charges for services	\$ 1,353,740
Total operating revenues	<u>1,353,740</u>
Operating expenses:	
Support services:	
Operation and maintenance of plant services:	
Services	3,301
Supplies	6,830
	<u>10,131</u>
Non-instructional programs:	
Food service operations:	
Salaries	451,177
Benefits	138,696
Services	22,070
Supplies	828,677
Depreciation	32,637
	<u>1,473,257</u>
Total operating expenses	<u>1,483,388</u>
Operating loss	<u>(129,648)</u>
Non-operating revenues:	
State sources	9,920
Federal sources	535,570
Interest income	30,319
Total non-operating revenues	<u>575,809</u>
Change in net assets	446,161
Net assets beginning of year	<u>1,048,882</u>
Net assets end of year	<u>\$ 1,495,043</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

KEOKUK COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2006

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 1,394,632
Cash received from miscellaneous operating activities	11,087
Cash payments to employees for services	(589,873)
Cash payments to suppliers for goods or services	(804,954)
Net cash provided by operating activities	<u>10,892</u>
Cash flows from non-capital financing activities:	
State grants received	9,920
Federal grants received	484,257
Net cash provided by non-capital financing activities	<u>494,177</u>
Cash flows from investing activities:	
Interest on investments	30,319
Net cash provided by investing activities	<u>30,319</u>
Cash flows from capital financing activities:	
Purchase of assets	(73,754)
Net cash used in financing activities	<u>(73,754)</u>
Net increase in cash and cash equivalents	461,634
Cash and cash equivalents at beginning of year	<u>642,044</u>
Cash and cash equivalents at end of year	<u>\$ 1,103,678</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating loss	\$ (129,648)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Commodities consumed	50,403
Depreciation	32,637
Increase in inventories	(1,716)
Decrease in accounts receivables	49,376
Increase in accounts payable	7,237
Increase in unearned revenue	2,603
Net cash provided by operating activities	<u>\$ 10,892</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u>\$ 1,103,678</u>
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:	
During the year ended June 30, 2006, the District received Federal commodities valued at \$50,403.	
SEE NOTES TO BASIC FINANCIAL STATEMENTS.	

KEOKUK COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2006

	<u>Private Purpose</u>
	<u>Trust</u>
	<u>Scholarships</u>
ASSETS	
Cash and pooled investments	\$ 103,536
LIABILITIES	0
NET ASSETS	
Reserved for scholarships	<u>\$ 103,536</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

KEOKUK COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
YEAR ENDED JUNE 30, 2006

	<u>Private Purpose Trust Scholarships</u>
ADDITIONS:	
Local sources:	
Interest income	\$ 3,579
TOTAL ADDITIONS	<u>3,579</u>
DEDUCTIONS:	
Support services:	
Scholarship awarded	<u>2,613</u>
Change in net assets	966
Net assets beginning of year	<u>102,570</u>
Net assets end of year	<u>\$ 103,536</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

KEOKUK COMMUNITY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2006

(1) Summary of Significant Accounting Policies

The Keokuk Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Keokuk, Iowa, and the predominate agricultural territory in Lee Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Keokuk Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Keokuk Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Lee County Assessors' Conference Board.

B. Basis of Presentation

Government-wide financial statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Investment in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition of capital facilities.

The Debt Service Fund is used to account for the payment of interest and principal on the District's general long-term debt.

The District reports the following major proprietary funds:

The District's proprietary fund is the School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

The District also reports a fiduciary fund which focus on net assets and changes in net assets. The District's fiduciary fund is as follows:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board

Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on

January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 1,000
Buildings	1,000
Land improvements	1,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,000

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-12 years

Salaries Payable - Payroll and related expenditures for annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been

recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenue - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary, School Nutrition Fund.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2006. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the Government-wide statement of net assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, expenditures in the support services function exceeded the amount budgeted.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2006 were entirely covered by federal depository insurance or State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
Diversified portfolio	<u>\$ 5,624,918</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

(3) Transfers

The detail of transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	<u>\$ 1,180,640</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(4) Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 344,481	73,754	0	418,235
Less accumulated depreciation	141,165	32,637	0	173,802
Business-type activities capital assets, net	<u>\$ 203,316</u>	<u>41,117</u>	<u>0</u>	<u>244,433</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 902,602	0	0	902,602
Construction in progress	8,075	125,736	8,075	125,736
Total capital assets not being depreciated	910,677	125,736	8,075	1,028,338
Capital assets being depreciated:				
Buildings	24,206,511	73,472	0	24,279,983
Land improvements	1,117,532	59,411	0	1,176,943
Machinery and equipment	4,323,929	406,220	0	4,730,149
Total capital assets being depreciated	29,647,972	539,103	0	30,187,075
Less accumulated depreciation for:				
Buildings	6,626,813	448,614	0	7,075,427
Land improvements	651,573	45,091	0	696,664
Machinery and equipment	3,605,476	299,237	0	3,904,713
Total accumulated depreciation	10,883,862	792,942	0	11,676,804
Total capital assets being depreciated, net	18,764,110	(253,839)	0	18,510,271
Governmental activities capital assets, net	\$ 19,674,787	(128,103)	8,075	19,538,609

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 168,069
Other	6,149
Support services:	
Instructional staff services	11,711
Administration services	16,860
Operation and maintenance of plant services	26,865
Transportation	69,583
	299,237
Unallocated depreciation	493,705
Total governmental activities depreciation expense	\$ 792,942
Business-type activities:	
Food services	\$ 32,637

(5) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 7,075,000	0	410,000	6,665,000	425,000
Revenue bonds	4,025,000	0	725,000	3,300,000	725,000
Early retirement	1,063,241	987,267	325,839	1,724,669	727,649
Compensated absences	144,000	170,073	144,000	170,073	170,073
Total	\$ 12,307,241	1,157,340	1,604,839	11,859,742	2,047,722

General Obligation Bonds Payable

Details of the District's June 30, 2006 General Obligation bonds indebtedness is as follows:

Year Ending June 30,	Interest Rate	Bond issue March 24, 2003		
		Principal	Interest	Total
2007	2.50 %	\$ 425,000	233,750	658,750
2008	3.00	435,000	223,126	658,126
2009	3.00	445,000	210,076	655,076
2010	3.25	460,000	196,726	656,726
2011	3.30	475,000	181,776	656,776
2012	3.40	490,000	166,100	656,100
2013	3.50	510,000	149,440	659,440
2014	3.60	525,000	131,590	656,590
2015	3.70	540,000	112,690	652,690
2016	3.80	555,000	92,710	647,710
2017	3.90	580,000	71,620	651,620
2018	4.00	600,000	49,000	649,000
2019	4.00	625,000	25,000	650,000
Total		\$ 6,665,000	1,843,604	8,508,604

Revenue Bonds Payable

Details of the District's June 30, 2006 revenue bonded indebtedness is as follows:

Year Ending June 30	Series A - Sales Tax Bond		Series B - Sales Tax Bond		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 200,000	50,400	\$ 560,000	110,395	\$ 760,000	160,795
2008	200,000	39,950	600,000	81,679	800,000	121,629
2009	200,000	29,475	650,000	50,515	850,000	79,990
2010	400,000	16,175	490,000	19,180	890,000	35,355
Total	\$ 1,000,000	136,000	\$ 2,300,000	261,769	\$ 3,300,000	397,769

Early Retirement

The District offers a voluntary early retirement plan to its certified and non-certified employees. Eligible employees must be at least age fifty-five and employees must have completed ten

years of continuous service to the District. Employees must complete an application which is subject to approval by the Board of Education. The early retirement incentives for each eligible employee is governed by the Master Contract between the District and the Keokuk Education Association. Early retirement benefits paid for the year ended June 30, 2006 totaled \$325,839.

(6) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$676,351, \$658,686 and \$623,676, respectively, equal to the required contributions for each year.

(7) Risk Management

The District is a member in the Iowa School Employees Benefits Association (ISEBA), an Iowa Code Chapter 28E organization. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: medical, dental, vision and prescription drugs. The District currently has dental insurance only through the Association.

The District's contributions, which include deficit recovery assessments, to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2006 were \$128,030.

Members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 30 days prior written notice may withdraw.

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational

services provided through the area education agency. The District's actual amount for this purpose totaled \$772,398 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(9) Construction Commitments

The District entered into various contract totaling \$229,553 for entrance additions at the high school and for consumer science remodeling of the District. At June 30, 2006, \$125,736 of the contracts were completed. The remaining amounts of the contracts will be paid as work on the project progresses.

(10) Budget Overexpenditure

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2006, expenditures in the support services function exceeded the amount budgeted.

REQUIRED SUPPLEMENTARY INFORMATION

KEOKUK COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2006

	Governmental	Proprietary	Total	Budgeted Amounts		Final to
	Fund Types	Fund Type		Original	Final	Actual
	Actual	Actual	Actual			Variance -
						Positive
						(Negative)
Revenues:						
Local sources	\$ 8,231,877	1,384,059	9,615,936	9,904,135	9,904,135	(288,199)
Intermediate sources	237,966	0	237,966	25,000	25,000	212,966
State sources	11,526,565	9,920	11,536,485	11,744,537	11,744,537	(208,052)
Federal sources	1,981,714	535,570	2,517,284	2,255,000	2,255,000	262,284
Total revenues	21,978,122	1,929,549	23,907,671	23,928,672	23,928,672	(21,001)
Expenditures:						
Instruction	12,399,588	0	12,399,588	13,037,655	13,037,655	638,067
Support services	5,894,525	10,131	5,904,656	5,668,000	5,668,000	(236,656)
Non-instructional programs	695,083	1,473,257	2,168,340	3,346,511	3,346,511	1,178,171
Other expenditures	2,591,811	0	2,591,811	3,214,635	3,214,635	622,824
Total expenditures	21,581,007	1,483,388	23,064,395	25,266,801	25,266,801	2,202,406
Excess(deficiency) of revenues over(under) expenditures	397,115	446,161	843,276	(1,338,129)	(1,338,129)	2,181,405
Other financing sources, net	1,267	0	1,267	5,000	5,000	6,267
Excess(deficiency) of revenues and other financing sources over(under) expenditures	398,382	446,161	844,543	(1,333,129)	(1,333,129)	2,187,672
Balance beginning of year	6,494,878	1,048,882	7,543,760	6,360,756	6,360,756	1,183,004
Balance end of year	\$ 6,893,260	1,495,043	8,388,303	5,027,627	5,027,627	3,370,676

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KEOKUK COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2006, expenditures in the support services function exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

KEOKUK COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 JUNE 30, 2006

	Nonmajor Special Revenue Funds				
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	School- house 67.5	Total Special Revenue Funds
Assets					
Cash and pooled investments	\$ 329,781	129,942	205,165	21,853	686,741
Receivables:					
Property tax:					
Current year delinquent	9,498	0	1,646	0	11,144
Succeeding year	750,000	0	114,615	0	864,615
Total assets	\$ 1,089,279	129,942	321,426	21,853	1,562,500
Liabilities and fund balances					
Liabilities:					
Accounts payable	\$ 0	4,184	381	0	4,565
Deferred revenue:					
Succeeding year property tax	750,000	0	114,615	0	864,615
	750,000	4,184	114,996	0	869,180
Fund balances:					
Unreserved:					
Undesignated	339,279	125,758	206,430	21,853	693,320
Total fund balances	339,279	125,758	206,430	21,853	693,320
Total liabilities and fund balances	\$ 1,089,279	129,942	321,426	21,853	1,562,500

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KEOKUK COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2006

	Nonmajor Special Revenue Funds				
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	School- house 67.5	Total Special Revenue Funds
Revenues:					
Local sources:					
Local tax	\$ 587,777	0	108,827	0	696,604
Other	16,912	296,958	38,081	1,028	352,979
Total revenues	604,689	296,958	146,908	1,028	1,049,583
Expenditures:					
Current:					
Instruction:					
Regular instruction	354,353	0	0	0	354,353
Other instruction	0	312,209	0	0	312,209
	354,353	312,209	0	0	666,562
Support services:					
Administration services	30,757	0	0	0	30,757
Operation and maintenance of plant services	133,887	0	18,250	0	152,137
Transportation services	36,636	0	69,926	0	106,562
	201,280	0	88,176	0	289,456
Other expenditures:					
Facilities acquisition	0	0	19,661	25,525	45,186
	0	0	19,661	25,525	45,186
Total expenditures	555,633	312,209	107,837	25,525	1,001,204
Net change in fund balances	49,056	(15,251)	39,071	(24,497)	48,379
Fund balance beginning of year	290,223	141,009	167,359	46,350	644,941
Fund balance end of year	\$ 339,279	125,758	206,430	21,853	693,320

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KEOKUK COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
HS interest earned	\$ 119	0	0	119
HS drama	1,493	1,626	1,943	1,176
HS speech	1,843	2,733	3,121	1,455
HS show choir	500	279	418	361
HS vocal music	500	4,789	3,854	1,435
HS instrument music	2,416	2,275	3,227	1,464
HS winterguard	500	2,558	1,347	1,711
HS athletics	562	0	119	443
HS tournaments	874	722	1,284	312
HS booster resale	(126)	39,568	38,633	809
HS cross country	990	898	1,193	695
HS boys basketball	8,536	7,035	8,858	6,713
HS football	17,362	13,930	13,909	17,383
HS baseball	2,078	909	2,674	313
HS boys track	1,279	4,005	4,599	685
HS boys tennis	271	854	423	702
HS boys golf	1,324	2,258	3,299	283
HS boys swimming	673	629	699	603
HS soccer	1,429	383	1,223	589
HS wrestling	1,779	5,258	7,032	5
HS girls basketball	5,890	4,831	2,328	8,393
HS volleyball	4,442	5,191	6,048	3,585
HS girls soccer	1,000	0	0	1,000
HS softball	2,459	4,615	5,882	1,192
HS girls track	1,111	3,760	2,507	2,364
HS girls tennis	1,032	563	1,003	592
HS girls golf	630	2,064	1,685	1,009
HS girls swimming	932	1,255	1,927	260
HS yearbook	7,467	12,047	10,768	8,746
HS general	5,082	7,971	9,504	3,549
HS FHA	743	0	0	743
HS student newspaper	500	2,295	1,827	968
HS fallon student	1,473	0	46	1,427
HS lit project	1,417	0	70	1,347
HS student council	9,509	8,368	15,618	2,259
HS uniform repair	2,816	390	1,863	1,343
HS national honor society	515	1,600	1,916	199
HS french club	580	0	0	580
HS spanish club	1,058	1,247	1,096	1,209
HS class of 2005	456	0	456	0
HS class of 2006	2,248	594	2,842	0
HS class of 2007	4,796	5,569	9,043	1,322
HS class of 2008	964	4,717	1,917	3,764
HS class of 2009	250	850	54	1,046
HS class of 2010	0	250	0	250

KEOKUK COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
HS special education club	616	279	471	424
HS athletics	721	7,025	7,046	700
HS special athletics	147	0	0	147
HS weight room	5,264	0	60	5,204
HS student activity	0	14,640	14,640	0
HS concessions	1,939	42,554	42,949	1,544
HS little feather	3,300	14,779	11,816	6,263
HS cheerleaders	1,992	5,893	5,844	2,041
HS special needs friends	193	200	212	181
HS bowling	1,270	279	453	1,096
HS gaming	0	189	181	8
HS jets	291	0	0	291
HS learning center	889	736	123	1,502
HS SADD	466	485	685	266
HS teacher activity	0	1,955	1,373	582
MS vocal music	3,681	4,420	4,725	3,376
MS instrument music	555	818	616	757
MS cross country	0	42	42	0
MS boys basketball	848	1,674	2,522	0
MS football	0	2,569	2,569	0
MS soccer	2,500	0	1,000	1,500
MS boys track	0	500	382	118
MS wrestling	(877)	1,467	590	0
MS girls basketball	114	1,351	1,431	34
MS volleyball	1,161	1,465	1,788	838
MS softball	140	2,134	1,769	505
MS girls track	682	500	408	774
MS yearbook	2,101	3,410	2,864	2,647
MS student newspaper	248	0	248	0
MS lit project	3,558	10,239	9,296	4,501
MS math contests	575	0	0	575
MS SPED club	30	333	363	0
MS student athletes	0	2,874	2,874	0
MS student activities	4,167	10,579	11,413	3,333
MS cheerleaders	178	200	19	359
MS learn connects	1,029	435	544	920
MS int checking	173	233	390	16
MS student products	203	3,815	4,018	0
HS soccer fundraiser	45	0	45	0
HS boys golf fundraiser	50	0	50	0
HS softball fundraiser	988	0	135	853
Total	\$ 141,009	296,958	312,209	125,758

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KEOKUK COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN PRIVATE PURPOSE TRUST FUND,
 SCHOLARSHIP ACCOUNTS
 YEAR ENDED JUNE 30, 2006

	Balance Beginning of year	Revenues	Expend- itures	Balance End of year
Black Sims Award	\$ 508	14	0	522
Kilborne Prize	9,709	225	157	9,777
William Aldrich Trust	3,582	90	40	3,632
Elizabeth Wilson Leake Award	13,596	298	303	13,591
Maud Marshall Hassall	10,966	606	409	11,163
WM J Sigmund Memorial	8,284	481	322	8,443
Edna Sears Trust	7,248	247	300	7,195
Wilbur Erickson	6,186	233	0	6,419
Edna Meirotto (1)	10,239	330	254	10,315
Edna Meirotto (2)	10,303	348	328	10,323
Ming Chung	21,949	707	500	22,156
	<u>\$ 102,570</u>	<u>3,579</u>	<u>2,613</u>	<u>103,536</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KEOKUK COMMUNITY SCHOOL DISTRICT
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUND TYPES
FOR THE LAST FOUR YEARS

		Modified Accrual Basis			
		Years Ended June 30,			
		2006	2005	2004	2003
Revenues:					
Local sources:					
Local tax	\$	7,274,081	7,376,009	7,560,279	7,835,340
Tuition		145,239	104,514	132,977	79,151
Other		812,557	665,075	738,371	965,510
Intermediate sources		237,966	248,905	17,335	0
State sources		11,526,565	10,542,467	9,658,197	9,529,374
Federal sources		1,981,714	3,155,731	2,281,121	2,300,586
Total	\$	21,978,122	22,092,701	20,388,280	20,709,961
Expenditures:					
Instruction:					
Regular instruction	\$	7,535,015	7,564,211	7,201,553	7,204,922
Special instruction		2,937,092	2,551,755	3,174,324	2,948,706
Other instruction		1,927,481	2,020,546	1,112,618	1,130,085
Support services:					
Student services		743,239	697,915	715,383	766,190
Instructional staff services		522,756	420,808	421,299	399,603
Administration services		2,140,048	1,947,395	1,834,299	1,709,331
Operation and maintenance of plant services		1,889,550	1,814,974	1,749,993	1,547,588
Transportation services		598,932	419,753	440,308	525,785
Other support services		0	0	767	0
Non-instructional		695,083	916,281	828,507	799,318
Other expenditures:					
Facilities acquisitions		293,180	2,028,641	636,168	4,007,977
Long Term Debt:					
Principal		1,135,000	1,095,000	1,050,000	1,010,000
Interest		441,233	487,442	531,523	989,078
AEA flow-through		722,398	660,304	645,987	667,716
Total	\$	21,581,007	22,625,025	20,342,729	23,706,299

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KEOKUK COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
DIRECT:			
TWENTY-FIRST CENTURY COMMUNITY LEARNING CENTERS	84.287	FY 06	\$ 803,639
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DONATIONS	10.550	FY 06	50,403
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 06	72,139
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 06	412,117
			484,256
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCA- TIONAL AGENCIES	84.010	FY 05	5,000
TITLE I GRANTS TO LOCAL EDUCA- TIONAL AGENCIES	84.010	3312-GC-05	17,938
TITLE I GRANTS TO LOCAL EDUCA- TIONAL AGENCIES	84.010	3312-G-06	525,967
TITLE I GRANTS TO LOCAL EDUCA- TIONAL AGENCIES	84.010	3312-GC-06	25,627
			574,532
FUND FOR THE IMPROVEMENT OF EDUCATION			
	84.215	FY 04	58,591
INNOVATIVE EDUCATION PROGRAM STRATEGIES (TITLE V PROGRAM)			
	84.298	FY 06	9,229
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS			
	84.186	FY 06	19,619
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM			
	84.367	FY 06	153,825
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES			
	84.369	FY 05	7,443
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES			
	84.369	FY 06	13,380
			20,823

KEOKUK COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
DEPARTMENT OF EDUCATION (CONT):			
COMPREHENSIVE SCHOOL REFORM DEMONSTRATION	84.332A	FY 04	7,400
COMPREHENSIVE SCHOOL REFORM DEMONSTRATION	84.332A	FY 05	62,645
COMPREHENSIVE SCHOOL REFORM DEMONSTRATION	84.332A	FY 06	34,601
			<u>104,646</u>
ENHANCING EDUCATION THROUGH TECHNOLOGY (E2T2)	84.318	FY 04	3,033
ENHANCING EDUCATION THROUGH TECHNOLOGY (E2T2)	84.318	FY 05	17,092
			<u>20,125</u>
AREA EDUCATION AGENCY:			
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 06	40,532
SPECIAL EDUCATION - GRANTS TO STATES (PART B)	84.027	FY 06	145,942
TOTAL			<u>\$ 2,486,162</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Keokuk Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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(a professional corporation)
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Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards

To the Board of Education of the
Keokuk Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Keokuk Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated October 5, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Keokuk Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Keokuk Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings.

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Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Keokuk Community School District and other parties to Keokuk Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Keokuk Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

October 5, 2006

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Independent Auditor's Report on Compliance with Requirements Applicable
to Each Major Program and Internal Control over Compliance
in Accordance with OMB Circular A-133

To the Board of Education of
Keokuk Community School District

Compliance

We have audited the compliance of Keokuk Community School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. Keokuk Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants agreements applicable to each of its major federal programs is the responsibility of Keokuk Community School District's management. Our responsibility is to express an opinion on Keokuk Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Keokuk Community School District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Keokuk Community School District's compliance with those requirements.

In our opinion, Keokuk Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Keokuk Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Keokuk Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with

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applicable requirements of laws, regulations, contracts, and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Keokuk Community School District and other parties to whom Keokuk Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.


NOLTE, CORNMAN & JOHNSON, P.C.

October 5, 2006

KEOKUK COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, none of which are a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) No Reportable conditions in internal control over major programs were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose any audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major program was as follows:
 - Clustered
 - CFDA Number 10.553 - School Breakfast Program
 - CFDA Number 10.555 - National School Lunch Program
 - Individual
 - CFDA Number 84.287 - Twenty-first Century Community Learning Centers
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Keokuk Community School District did not qualify as a low-risk auditee.

KEOKUK COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Part II: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

II-A-06 Student Activity Fund - During our audit issues arose about the properness of certain accounts or certain receipts and expenditures collected/paid from the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. The student activity fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the cocurricular program defined in department of education administrative rules (298A.8). Fundraisers and donations made to the school should be recorded in the fund in which they could be expended.

Recommendation - The purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for the students established under Iowa Administrative Code 281-12.6(1). More specific examples of these instances of questioned items and recommendations are as follows:

PE Uniform revenues were recorded in the Student Activity Fund. These revenues do not specify the purpose, other than instructional supplies; therefore, they should be receipted into the General fund for use in all instructional supplies/services.

There is an Uniform Repair account. This account appears to be instructional in nature and should therefore be run through the General Fund.

There is a MS Lit Project account. This account appears to be instructional in nature and should therefore be run through the General Fund.

The District should review the propriety of receipts and expenditures that are recorded in the Student Activity Fund. It would appear that some of the accounts appear to be more administratively maintained in nature, rather than maintained by a club or organization. Therefore, they need to be corrected or transferred to the proper fund where these monies can be receipted and expended.

Response - The District has reviewed these accounts and has made necessary transfers to appropriate accounts.

Conclusion - Response accepted.

II-B-06 Gate Admissions - The gate admissions were not always reconciled to pre-numbered tickets.

Recommendation - The District should establish reconciliation procedures for gate admissions. The reconciliation should include the issuance of pre-numbered tickets and the reconciling of the admissions to the number of tickets issued.

Response - The District is taking steps to ensure the gate admissions are reconciled to pre-numbered tickets for all gated events.

Conclusion - Response accepted.

KEOKUK COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

No matters were reported.

KEOKUK COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Part IV: Other Findings Related to Statutory Reporting

IV-A-06 Certified Budget - District expenditures for the year ended June 30, 2006, exceeded the certified budget amounts in the support services function.

Recommendation - The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response - The budget was exceeded due to account code changes required from the Department of Education.

Conclusion - Response accepted.

IV-B-06 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-06 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-D-06 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Tyler McGhghy, Board Member Employee of Athletic Center	Athletic apparel and supplies	\$19,204
James Vandenberg, Board Member Assistant coach	Coaching	\$2,730

In accordance with an Attorney General Opinion dated November 9, 1976, the transactions with Tyler McGhghy do not appear to be a conflict of interest.

In accordance with Chapter 279.7A of the Code of Iowa, the transactions with James Vandenberg appears to be a conflict of interest.

Recommendation - The District should consult legal counsel.

Response - In the future, the District will monitor the transactions with Board Members more closely to avoid exceeding the limit stated in Chapter 279.7A of the Code of Iowa.

Conclusion - Response accepted.

IV-E-06 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-06 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

IV-G-06 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

IV-H-06 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

IV-I-06 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.